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The Fiscal Monitor

A Publication of the Department of Finance

Highlights

January 2002: budgetary deficit of $1.9 billion

There was a budgetary deficit of $1.9 billion in January 2002, $1.2 billion higher than the deficit of $0.7 billion reported in January 2001. However, the January 2001 results included the special one-time Relief for Heating Expenses of $1.4 billion, thereby distorting the year-over-year comparisons. On a year-over-year basis budgetary revenues were $0.5 billion lower, primarily due to lower personal income tax revenues, while program spending was $0.8 billion higher. Public debt charges declined by $0.1 billion, primarily reflecting the decline in interest rates.

April 2001 to January 2002: budgetary surplus of $11.5 billion

The budgetary surplus was estimated at $11.5 billion for the April 2001 to January 2002 period, down $6.6 billion from the surplus of $18.1 billion reported in the same period of 2000-01. The lower surplus to date reflects the ongoing impact of the tax cuts and spending initiatives in the February 2000 budget and October 2000 *Economic Statement and Budget Update*, as well as those announced before and in the December 2001 budget. In addition, the slowing economy is having an impact on most of the major revenue components and employment insurance (EI) benefits, thereby adversely affecting the overall fiscal results, compared to the same period last year. The results to date are slightly better than expected, reflecting the impact of the better-than-expected economic results for the fourth quarter of 2001, particularly on corporate income tax revenues.

January 2002: budgetary results

Budgetary revenues declined $0.5 billion, or 3.4 per cent, on a year-over-year basis.

- Personal income tax revenues were $0.4 billion, or 6.0 per cent, lower due to the slowdown in the economy, tax reduction measures announced in the February 2000 budget and October 2000 *Economic Statement and Budget Update*, and enrichments to the Canada Child Tax Benefit announced in previous budgets.
- Corporate income tax revenues were marginally higher. Given the decline in corporate profits in 2001, the tax rate reductions that came into effect in January, and the December 2001 budget initiative to allow small businesses to defer their monthly income tax instalment payments, a decline was expected. With a stronger economy, it appears that small business is not taking full advantage of the tax deferral measure.
- EI premium revenues declined 4.5 per cent, in part reflecting the impact of lower premium rates (the employee rate for 2002 is $2.20 per $100 of insurable earnings compared to $2.25 in 2001).
- Excise taxes and duties increased $0.2 billion, or 5.5 per cent. Increases were reported in all components except customs import duties. The increase in goods and services tax (GST) revenues primarily reflected slower processing of refunds, as gross collections declined. Higher federal taxes on tobacco products, effective November 2, 2001, contributed to the increase in sales and excises taxes.
- Non-tax revenues declined 15.6 per cent, largely reflecting the impact of lower interest rates.

Table 1
Summary statement of transactions

	January		April to January	
	2001	2002	2000-01	2001-02
	($ millions)			
Budgetary transactions				
Revenues	14,403	13,908	146,021	145,138
Program spending	-11,722	-12,509	-93,477	-100,684
Operating surplus	2,681	1,399	52,544	44,454
Public debt charges	-3,384	-3,317	-34,408	-32,929
Budgetary balance (deficit/surplus)	-703	-1,918	18,136	11,525
Non-budgetary transactions	4,088	3,000	-5,601	-10,997
Financial requirements/source (excluding foreign exchange transactions)	3,385	1,082	12,535	528
Foreign exchange transactions	-1,970	152	-3,293	-491
Net financial balance	1,415	1,234	9,242	37
Net change in borrowings	2,458	-1,781	-14,158	-8,780
Net change in cash balances	3,873	-547	-4,916	-8,743
Cash balance at end of period			8,039	4,442

Note: Positive numbers indicate a net source of funds. Negative numbers indicate a net requirement for funds.

Program spending increased by $0.8 billion, or 6.7 per cent, on a year-over-year basis.

- Major transfers to persons declined by $1.0 billion, or 20.6 per cent, due to the January 2001 payment of the $1.4-billion Relief for Heating Expenses. EI benefit payments increased 33.8 per cent, reflecting the impact of benefit enhancements announced in the February 2000 budget and in September 2000, as well as an increase in the number of beneficiaries due to the slowdown in the economy.
- Major transfers to other levels of government were up $0.1 billion, or 6.8 per cent. The increase in the Canada Health and Social Transfer (CHST) reflects the September 2000 agreement reached by first ministers to increase base funding from $13.5 billion in 2000-01 to $17.3 billion in 2001-02. The decline in fiscal transfers is attributable to the timing of payments.
- Direct program spending, consisting of total program spending less major transfers to persons and other levels of government, increased $1.6 billion, or 32.2 per cent, with increases reported in all major components.

Public debt charges, on a year-over year basis, were down $0.1 billion, or 2.0 per cent, due primarily to the decline in the average effective interest rate on the debt.

April 2001 to January 2002: budgetary results

Over the first 10 months of fiscal year 2001-02, the budgetary surplus was estimated at $11.5 billion, down $6.6 billion from the surplus reported in the same period of 2000-01. Program spending was up $7.2 billion while budgetary revenues were down $0.9 billion. Dampening the impact of these factors on the budgetary balance were lower public debt charges, down $1.5 billion.

Table 2
Budgetary revenues

	January			April to January		
	2001	2002	Change	2000-01	2001-02	Change
	($ millions)		(%)	($ millions)		(%)
Income taxes						
Personal income tax	6,758	6,355	-6.0	70,897	70,891	0.0
Corporate income tax	1,642	1,649	0.4	19,153	18,461	-3.6
Other income tax revenue	655	554	-15.4	3,002	3,207	6.8
Total income tax	9,055	8,558	-5.5	93,052	92,559	-0.5
Employment insurance premium revenues	1,439	1,374	-4.5	15,024	14,371	-4.3
Excise taxes and duties						
Goods and services tax	2,340	2,474	5.7	21,455	21,664	1.0
Customs import duties	219	186	-15.1	2,293	2,432	6.1
Sales and excise taxes	643	719	11.8	6,954	7,299	5.0
Total excise taxes and duties	3,202	3,379	5.5	30,702	31,395	2.3
Total tax revenues	13,696	13,311	-2.8	138,778	138,325	-0.3
Non-tax revenues	707	597	-15.6	7,243	6,813	-5.9
Total budgetary revenues	14,403	13,908	-3.4	146,021	145,138	-0.6

Among the major components of budgetary revenues, on a year-over-year basis:

- Personal income tax collections were marginally lower, as higher final tax payments received in April and May with respect to the 2000 taxation year and the effect of prior-year adjustments affecting the October 2000 results were offset by the impact of the tax reduction measures announced in the February 2000 budget and October 2000 *Economic Statement and Budget Update*.
- Corporate income tax revenues declined 3.6 per cent, reflecting the impact of both lower corporate profits and reductions in tax rates. Large year-over-year declines are expected over the balance of the fiscal year, primarily due to lower final settlement payments, reflecting the decline in corporate profits in 2001, and to the extent that small businesses defer payments of their corporate income tax instalments for the months of February and March 2002.
- EI premium revenues were down 4.3 per cent, as the impact of prior-year adjustments, which affected the October 2000 results, coupled with the decline in premium rates, more than offset the impact of the growth in the number of people employed and therefore paying premiums.
- Excise taxes and duties increased $0.7 billion, or 2.3 per cent. GST revenues were up marginally, customs import duties were up 6.1 per cent and sales and excise taxes increased 5.0 per cent.
- Non-tax revenues were down 5.9 per cent.

Among the major components of program spending, on a year-over-year basis:

- Transfers to persons were up 6.0 per cent due to higher elderly and EI benefit payments. The increase in elderly benefit payments reflects an increase in the number of individuals eligible for benefits and higher average benefits, which are indexed to inflation. The increase in EI benefit payments primarily reflects the impact of program enhancements, as well as an increase in the number of beneficiaries. The net impact of these increases was dampened by the Relief for Heating Expenses paid in January 2001.

Table 3
Budgetary expenditures

	January			April to January		
	2001	2002	Change	2000-01	2001-02	Change
	($ millions)		(%)	($ millions)		(%)
Transfer payments to:						
Persons						
Elderly benefits	2,054	2,140	4.2	20,133	21,066	4.6
Employment insurance benefits	1,157	1,548	33.8	8,775	11,091	26.4
Relief for Heating Expenses	1,434			1,434		
Total	4,645	3,688	-20.6	30,342	32,157	6.0
Other levels of government						
Canada Health and Social Transfer	1,125	1,442	28.2	11,250	14,416	28.1
Fiscal transfers	1,181	1,034	-12.4	10,201	10,397	1.9
Medical Equipment Fund				1,000		
Alternative Payments for Standing Programs	-206	-233	13.1	-2,055	-2,098	2.1
Total	2,100	2,243	6.8	20,396	22,715	11.4
Direct program spending						
Subsidies and other transfers						
Agriculture	57	43	-24.6	440	609	38.4
Foreign Affairs	149	243	63.1	1,175	1,411	20.1
Health	105	145	38.1	925	1,075	16.2
Human Resources Development	366	370	1.1	1,181	1,378	16.7
Indian and Northern Development	206	299	45.1	3,473	3,354	-3.4
Industry and Regional Development	87	71	-18.4	1,100	1,183	7.5
Veterans Affairs	130	138	6.2	1,208	1,268	5.0
Other	202	378	87.1	1,779	2,253	26.6
Total	1,302	1,687	29.6	11,281	12,531	11.1
Payments to Crown corporations						
Canadian Broadcasting Corporation	65	65	0.0	843	916	8.7
Canada Mortgage and Housing Corporation	150	158	5.3	1,520	1,680	10.5
Other	82	190	131.7	1,221	1,411	15.6
Total	297	413	39.1	3,584	4,007	11.8
Operating and capital expenditures						
Defence	1,004	1,336	33.1	8,652	9,420	8.9
All other departmental expenditures	2,374	3,142	32.4	19,222	19,854	3.3
Total	3,378	4,478	32.6	27,874	29,274	5.0
Total direct program spending	4,977	6,578	32.2	42,739	45,812	7.2
Total program expenditures	11,722	12,509	6.7	93,477	100,684	7.7
Public debt charges	3,384	3,317	-2.0	34,408	32,929	-4.3
Total budgetary expenditures	15,106	15,826	4.8	127,885	133,613	4.5
Memorandum item:						
Total transfers	8,047	7,618	-5.3	62,019	67,403	8.7

- Major transfers to other levels of government were up 11.4 per cent, reflecting higher cash transfers under the CHST and fiscal transfer programs. The increase in the CHST reflects the September 2000 agreement reached by first ministers to increase base funding from $13.5 billion in 2000-01 to $17.3 billion in 2001-02. The increase in fiscal transfers is primarily due to higher equalization entitlements. The overall growth in this component was dampened by the special payment of $1 billion to the Medical Equipment Fund in 2000-01.
- Direct program spending, consisting of total program spending less major transfers to persons and other levels of government, increased 7.2 per cent. Developments in this component are largely affected by the timing of payments as well as the full implementation of the new Financial Information Strategy. The introduction of the new system has resulted in a change in the monthly profile of spending. This will result in a larger portion of spending being recorded at the end of the fiscal year than in previous years.

The year-over-year decline in public debt charges of $1.5 billion reflects the impact of declines in both the stock of interest-bearing debt and the average effective interest rate on that debt.

Financial source of $0.5 billion (excluding foreign exchange transactions) for April 2001 to January 2002

The budgetary balance is presented on a modified accrual basis of accounting, recording government liabilities when they are incurred, regardless of when the cash payment is made. In addition, the budgetary balance includes only those activities over which the Government has legislative control.

In contrast, financial requirements/source measures the difference between cash coming in to the Government and cash going out. Financial requirements/source differs from the budgetary balance as the former includes transactions in loans, investments and advances, federal employees' pension accounts, other specified purpose accounts, and changes in other financial assets and liabilities. These activities are included as part of non-budgetary transactions. The conversion from accrual to cash is also reflected in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of $11.0 billion in the first 10 months of 2001-02, compared to a net requirement of $5.6 billion in the same period of 2000-01. The increase to date is attributable to transfers of applicable pension assets to those Crown corporations setting up their own pension plans and higher transfers to the Canada Pension Plan Account.

As a result, with a budgetary surplus of $11.5 billion and a net requirement of $11.0 billion from non-budgetary transactions, there was a financial source (excluding foreign exchange transactions) of $0.5 billion in the April 2001 to January 2002 period, compared to a source of $12.5 billion in the same period of 2000-01.

Net financial source of $37 million for April 2001 to January 2002

Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account. The purpose of the Exchange Fund Account is to promote order and stability in the foreign exchange market. The buying of Canadian dollars represents a source of funds from exchange fund transactions, while the selling of Canadian dollars represents a requirement. Changes in foreign currency liabilities, which are undertaken to change the level of Canada's foreign exchange reserves, also impact on foreign exchange transactions. Taking all of these factors into account, there was a net requirement of $0.5 billion in the first 10 months of 2001-02, compared to a net requirement of $3.3 billion in the same period of 2000-01.

Table 4

The budgetary balance and financial requirements/source

	January		April to January	
	2001	2002	2000-01	2001-02
		($ millions)		
Budgetary balance (deficit/surplus)	-703	-1,918	18,136	11,525
Loans, investments and advances				
Crown corporations	53	46	401	544
Other	-43	-208	-885	-1,338
Total	10	-162	-484	-794
Specified purpose accounts				
Canada Pension Plan Account	-352	320	-876	-1,720
Superannuation accounts	17	-50	1,571	-1,558
Other	17	50	-31	106
Total	-318	320	664	-3,172
Other transactions	4,396	2,842	-5,781	-7,031
Total non-budgetary transactions	4,088	3,000	-5,601	-10,997
Financial requirements/source (excluding foreign exchange transactions)	3,385	1,082	12,535	528
Foreign exchange transactions	-1,970	152	-3,293	-491
Net financial balance	1,415	1,234	9,242	37

Table 5

Net financial balance and net borrowings

	January		April to January	
	2001	2002	2000-01	2001-02
		($ millions)		
Net financial balance	1,415	1,234	9,242	37
Net increase (+)/decrease (-) in borrowings				
Payable in Canadian dollars				
Marketable bonds	1,500	364	9,819	-5,497
Treasury bills	900	-1,200	-20,250	5,100
Canada Savings Bonds	136	-118	-1,067	-2,737
Other	34	-25	-62	-47
Total	2,570	-979	-11,560	-3,181
Payable in foreign currencies				
Marketable bonds	0	0	-2,202	-1,576
Notes and loans	-580	-473	-580	-514
Canada bills	468	-329	220	-3,336
Canada notes	0	0	-36	-173
Total	-112	-802	-2,598	-5,599
Net change in borrowings	2,458	-1,781	-14,158	-8,780
Change in cash balance	3,873	-547	-4,916	-8,743

Table 6

Condensed statement of assets and liabilities

	March 31, 2001	January 31, 2002	Change
		($ millions)	
Liabilities			
Accounts payable, accruals and allowances	43,644	35,030	-8,614
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	129,185	127,627	-1,558
Canada Pension Plan (net of securities)	6,391	4,671	-1,720
Other pension and other accounts	7,253	7,359	106
Total pension and other accounts	142,829	139,657	-3,172
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	294,973	289,476	-5,497
Treasury bills	88,700	93,800	5,100
Canada Savings Bonds	26,099	23,362	-2,737
Other	3,473	3,427	-46
Subtotal	413,245	410,066	-3,179
Payable in foreign currencies	33,158	27,559	-5,599
Total unmatured debt	446,403	437,624	-8,779
Total interest-bearing debt	589,232	577,281	-11,951
Total liabilities	632,876	612,311	-20,565
Assets			
Cash and accounts receivable	19,186	8,860	-10,326
Foreign exchange accounts	50,270	50,761	491
Loans, investments and advances (net of allowances)	16,042	16,836	794
Total assets	85,498	76,458	-9,041
Accumulated deficit (net public debt)	547,378	535,853	-11,525

With a budgetary surplus of $11.5 billion, a net requirement of $11.0 billion from non-budgetary transactions and a net requirement of $0.5 billion from foreign exchange transactions, there was a net financial source of $37 million in the April 2001 to January 2002 period, compared to a net source of $9.2 billion in the same period of 2000-01.

Net borrowings down $8.8 billion for April 2001 to January 2002

Although there was a net financial source of only $37 million in the first 10 months of 2001-02, the Government did reduce its holding of market debt by $8.8 billion through the drawing down of cash balances. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. At the end of January 2002 they stood at $4.4 billion.

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Highlights

February 2002: budgetary surplus of $3.1 billion

There was a budgetary surplus of $3.1 billion in February 2002, $1.3 billion lower than the surplus of $4.4 billion reported in February 2001. In the last few years large surpluses have been recorded in February, as these results include the final corporate income tax settlement payments from those corporations whose taxation year ends on December 31. On a year-over-year basis budgetary revenues were $0.7 billion lower, as lower corporate income tax revenues more than offset increases in most of the other major revenue components. Program spending was $0.9 billion higher, while public debt charges declined by $0.4 billion.

April 2001 to February 2002: budgetary surplus of $14.7 billion

The budgetary surplus was estimated at $14.7 billion for the April 2001 to February 2002 period, down $7.9 billion from the surplus of $22.5 billion reported in the same period of 2000-01. The lower surplus to date reflects the ongoing impact of the tax cuts and spending initiatives in the February 2000 budget and October 2000 *Economic Statement and Budget Update*, as well as those announced before and in the December 2001 budget. In addition, the slowdown in the economy in 2001 is having an impact on most of the major revenue components and employment insurance (EI) benefits, thereby adversely affecting the overall fiscal results, compared to the same period of 2000-01.

Developments over the balance of the fiscal year will sharply reduce the cumulative surplus to date. These include the impact of the tax reductions announced in the October 2000 *Economic Statement and Budget Update* that came into effect in January 2002, as well as proposed funding for a number of initiatives announced in the December 2001 budget. In addition, adjustments will be made in the end-of-year accounting period to include the costs of goods and services received in late 2001-02, but for which payments are not made until the April/May period, and personal income tax refunds processed in March 2002 relating to the 2001 taxation year.

The results to date are somewhat better than expected at the time of the December 2001 budget, reflecting the impact of the better-than-expected economic results for the fourth quarter of 2001, which continued into the first quarter of 2002.

February 2002: budgetary results

Budgetary revenues declined $0.7 billion, or 4.2 per cent, on a year-over-year basis.

- Personal income tax revenues were $0.3 billion, or 5.7 per cent, higher, primarily due to surprising strength in monthly deductions from employment income. It is still too early to assess whether this is due to timing factors or reflects improved economic developments.
- Corporate income tax revenues were down $1.2 billion, or 19.8 per cent. This primarily reflects the interaction of remittance procedures for corporations with the decline in corporate profits in 2001. Corporations are required to file monthly instalments based on either their previous year's actual tax liability or their current year's estimated tax liability. They have 60 days after their year-end to make settlement payments for any amounts owing.

Table 1
Summary statement of transactions

	February		April to February	
	2001	2002	2000-01	2001-02
	($ millions)			
Budgetary transactions				
Revenues	17,705	16,966	163,727	162,105
Program spending	-9,867	-10,810	-103,342	-111,494
Operating surplus	7,838	6,156	60,385	50,611
Public debt charges	-3,440	-3,023	-37,848	-35,952
Budgetary balance (deficit/surplus)	4,398	3,133	22,537	14,659
Non-budgetary transactions	-1,202	-296	-6,801	-11,291
Financial requirements/source (excluding foreign exchange transactions)	3,196	2,837	15,736	3,368
Foreign exchange transactions	-644	-626	-3,937	-1,117
Net financial balance	2,552	2,211	11,799	2,251
Net change in borrowings	2,894	3,322	-11,264	-5,457
Net change in cash balances	5,446	5,533	535	-3,206
Cash balance at end of period			8,039	4,442

Note: Positive numbers indicate a net source of funds. Negative numbers indicate a net requirement for funds.

As most of the large non-financial sector corporations have a December year-end, a substantial amount of corporate income tax revenues are received in February – ranging from 25 per cent to 40 per cent of the total revenues for the year as a whole. As corporate profits were lower in 2001 than in 2000, a decline in final settlement payments in February 2002 was expected. Also, while the December 2001 budget allowed small businesses to defer their monthly income tax instalment payments for the months of January, February and March, it appears that small business is not taking full advantage of the tax deferral measure.

- EI premium revenues declined 2.8 per cent, reflecting the impact of lower premium rates (the employee rate for 2002 is $2.20 per $100 of insurable earnings compared to $2.25 in 2001).
- Excise taxes and duties increased $0.4 billion, or 17.2 per cent. Increases were reported in all components. The increases in both goods and services tax (GST) revenues and customs import duties reflected timing factors. Higher federal taxes on tobacco products, effective November 2, 2001, contributed to the increase in sales and excise taxes.
- Non-tax revenues increased 13.3 per cent, largely due to the timing of receipts from the sale of goods and services.

Program spending was up $0.9 billion, or 9.6 per cent, on a year-over-year basis.

- Major transfers to persons increased by $0.2 billion, or 5.3 per cent. EI benefit payments increased 7.3 per cent – the first time the rate of increase has been below double-digit increases since May 2001.
- Major transfers to other levels of government were up $0.1 billion, or 6.2 per cent. The increase in the Canada Health and Social Transfer (CHST) reflects the September 2000 agreement reached by first ministers to increase base funding from $13.5 billion in 2000-01 to $17.3 billion in 2001-02.

Table 2
Budgetary revenues

	February			April to February		
	2001	2002	Change	2000-01	2001-02	Change
	($ millions)		(%)	($ millions)		(%)
Income taxes						
Personal income tax	5,906	6,242	5.7	76,802	77,132	0.4
Corporate income tax	6,117	4,903	-19.8	25,270	23,365	-7.5
Other income tax revenue	521	175	-66.4	3,524	3,383	-4.0
Total income tax	12,544	11,320	-9.8	105,596	103,880	-1.6
Employment insurance premium revenues	1,868	1,815	-2.8	16,893	16,186	-4.2
Excise taxes and duties						
Goods and services tax	1,739	2,028	16.6	23,194	23,693	2.2
Customs import duties	224	328	46.4	2,517	2,760	9.7
Sales and excise taxes	595	642	7.9	7,550	7,941	5.2
Total excise taxes and duties	2,558	2,998	17.2	33,261	34,394	3.4
Total tax revenues	16,970	16,133	-4.9	155,750	154,460	-0.8
Non-tax revenues	735	833	13.3	7,977	7,645	-4.2
Total budgetary revenues	17,705	16,966	-4.2	163,727	162,105	-1.0

- Direct program spending, consisting of total program spending less major transfers to persons and other levels of government, increased $0.6 billion, or 14.2 per cent, as increases in operating and capital expenditures more than offset declines in the other major components.

Public debt charges, on a year-over year basis, were down $0.4 billion, or 12.1 per cent, primarily reflecting adjustments related to previous months.

April 2001 to February 2002: budgetary results

Over the April 2001 to February 2002 period the budgetary surplus was estimated at $14.7 billion, down $7.9 billion from the surplus of $22.5 billion reported in the same period of 2000-01. Program spending was up $8.2 billion while budgetary revenues were down $1.6 billion. Dampening the impact of these factors on the budgetary balance were lower public debt charges, down $1.9 billion.

Among the major components of budgetary revenues, on a year-over-year basis:

- Personal income tax collections were marginally higher, as higher final tax payments received in April and May with respect to the 2000 taxation year, prior-year adjustments affecting the October 2000 results, and an increase in assessed income subject to taxation due to higher employment and average wages in 2001 were largely offset by the impact of the tax reduction measures announced in the February 2000 budget, the October 2000 *Economic Statement and Budget Update* and previous budgets.
- Corporate income tax revenues declined 7.5 per cent, reflecting the impact of both lower corporate profits and reductions in tax rates.
- EI premium revenues were down 4.2 per cent, as the impact of prior-year adjustments, which affected the October 2000 results, coupled with the decline in premium rates, more than offset the impact of the growth in the number of people employed and therefore paying premiums.

Table 3

Budgetary expenditures

	February			April to February		
	2001	2002	Change	2000-01	2001-02	Change
	($ millions)		(%)	($ millions)		(%)
Transfer payments to:						
Persons						
Elderly benefits	2,055	2,140	4.1	22,188	23,207	4.6
Employment insurance benefits	1,195	1,282	7.3	9,970	12,373	24.1
Relief for Heating Expenses				1,434		
Total	3,250	3,422	5.3	33,592	35,580	5.9
Other levels of government						
Canada Health and Social Transfer	1,125	1,442	28.2	12,375	15,858	28.1
Fiscal transfers	1,194	1,036	-13.2	11,396	11,433	0.3
Medical Equipment Fund				1,000		
Alternative Payments for Standing Programs	-206	-233	13.1	-2,260	-2,331	3.1
Total	2,113	2,245	6.2	22,511	24,960	10.9
Direct program spending						
Subsidies and other transfers						
Agriculture	159	106	-33.3	599	715	19.4
Foreign Affairs	249	155	-37.8	1,422	1,565	10.1
Health	85	95	11.8	1,010	1,170	15.8
Human Resources Development	141	167	18.4	1,322	1,546	16.9
Indian and Northern Development	268	245	-8.6	3,742	3,600	-3.8
Industry and Regional Development	213	138	-35.2	1,313	1,322	0.7
Veterans Affairs	126	134	6.3	1,334	1,402	5.1
Other	204	169	-17.2	1,983	2,424	22.2
Total	1,445	1,209	-16.3	12,725	13,744	8.0
Payments to Crown corporations						
Canadian Broadcasting Corporation	15	50	233.3	859	966	12.5
Canada Mortgage and Housing Corporation	150	75	-50.0	1,670	1,755	5.1
Other	71	70	-1.4	1,292	1,480	14.6
Total	236	195	-17.4	3,821	4,201	9.9
Operating and capital expenditures						
Defence	902	1,256	39.2	9,553	10,677	11.8
All other departmental expenditures	1,921	2,483	29.3	21,140	22,332	5.6
Total	2,823	3,739	32.4	30,693	33,009	7.5
Total direct program spending	4,504	5,143	14.2	47,239	50,954	7.9
Total program expenditures	9,867	10,810	9.6	103,342	111,494	7.9
Public debt charges	3,440	3,023	-12.1	37,848	35,952	-5.0
Total budgetary expenditures	13,307	13,833	4.0	141,190	147,446	4.4
Memorandum item:						
Total transfers	6,808	6,876	1.0	68,828	74,284	7.9

- Excise taxes and duties increased 3.4 per cent. GST revenues were up 2.2 per cent, broadly in line with the increase in domestic demand, customs import duties were up 9.7 per cent and sales and excise taxes increased 5.2 per cent, the latter primarily reflecting the impact of higher tobacco excise taxes.
- Non-tax revenues were down 4.2 per cent, primarily reflecting the impact of lower interest rates.

Among the major components of program spending, on a year-over-year basis:

- Transfers to persons were up 5.9 per cent due to higher elderly and EI benefit payments. The increase in elderly benefit payments reflects an increase in the number of individuals eligible for benefits and higher average benefits, which are indexed to inflation. The increase in EI benefit payments primarily reflects the impact of program enhancements, as well as an increase in the number of beneficiaries. The net impact of these increases was dampened by the Relief for Heating Expenses paid in January 2001.
- Major transfers to other levels of government were up 10.9 per cent, reflecting higher cash transfers under the CHST and fiscal transfer programs. The increase in the CHST reflects the September 2000 agreement reached by first ministers to increase base funding from $13.5 billion in 2000-01 to $17.3 billion in 2001-02. The increase in fiscal transfers is primarily due to higher equalization entitlements. The overall growth in this component was dampened by the special payment of $1 billion to the Medical Equipment Fund in 2000-01.
- Direct program spending, consisting of total program spending less major transfers to persons and other levels of government, increased 7.9 per cent. Developments in this component are largely affected by the timing of payments as well as the full implementation of the new Financial Information Strategy. The introduction of the new system has resulted in a change in the monthly profile of spending. This will result in a larger portion of spending being recorded at the end of the fiscal year than in previous years.

The year-over-year decline in public debt charges of $1.9 billion reflects the impact of declines in both the stock of interest-bearing debt and the average effective interest rate on that debt.

Financial source of $3.4 billion (excluding foreign exchange transactions) for April 2001 to February 2002

The budgetary balance is presented on a modified accrual basis of accounting, recording government liabilities when they are incurred, regardless of when the cash payment is made. In addition, the budgetary balance includes only those activities over which the Government has legislative control.

In contrast, financial requirements/source measures the difference between cash coming in to the Government and cash going out. Financial requirements/source differs from the budgetary balance as the former includes transactions in loans, investments and advances, federal employees' pension accounts, other specified purpose accounts, and changes in other financial assets and liabilities. These activities are included as part of non-budgetary transactions. The conversion from accrual to cash is also reflected in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of $11.3 billion in the first 11 months of 2001-02, compared to a net requirement of $6.8 billion in the same period of 2000-01. The increase to date is largely attributable to transfers of applicable pension assets to those Crown corporations setting up their own pension plans.

As a result, with a budgetary surplus of $14.7 billion and a net requirement of $11.3 billion from non-budgetary transactions, there was a financial source (excluding foreign exchange transactions) of $3.4 billion in the April 2001 to February 2002 period, compared to a source of $15.7 billion in the same period of 2000-01.

Table 4

The budgetary balance and financial requirements/source

	February		April to February	
	2001	2002	2000-01	2001-02
		($ millions)		
Budgetary balance (deficit/surplus)	4,398	3,133	22,537	14,659
Loans, investments and advances				
Crown corporations	4	7	405	551
Other	-4	182	-890	-1,156
Total	0	189	-485	-605
Specified purpose accounts				
Canada Pension Plan Account	490	1,032	-386	-689
Superannuation accounts	-202	-168	1,369	-1,726
Other	139	91	109	197
Total	427	955	1,092	-2,218
Other transactions	-1,629	-1,440	-7,408	-8,468
Total non-budgetary transactions	-1,202	-296	-6,801	-11,291
Financial requirements/source (excluding foreign exchange transactions)	3,196	2,837	15,736	3,368
Foreign exchange transactions	-644	-626	-3,937	-1,117
Net financial balance	2,552	2,211	11,799	2,251

Table 5

Net financial balance and net borrowings

	February		April to February	
	2001	2002	2000-01	2001-02
		($ millions)		
Net financial balance	2,552	2,211	11,799	2,251
Net increase (+)/decrease (-) in borrowings				
Payable in Canadian dollars				
Marketable bonds	575	2,982	10,394	-2,515
Treasury bills	2,100	600	-18,150	5,700
Canada Savings Bonds	313	-133	-754	-2,870
Other	0	-17	-62	-63
Total	2,988	3,432	-8,572	252
Payable in foreign currencies				
Marketable bonds	-1,965	0	-4,167	-1,576
Notes and loans	1,965	0	1,385	-514
Canada bills	-94	48	126	-3,288
Canada notes	0	-158	-36	-331
Total	-94	-110	-2,692	-5,709
Net change in borrowings	2,894	3,322	-11,264	-5,457
Change in cash balance	5,446	5,533	535	-3,206

Table 6

Condensed statement of assets and liabilities

	March 31, 2001	February 28, 2002	Change
		($ millions)	
Liabilities			
Accounts payable, accruals and allowances	43,644	38,347	-5,297
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	129,185	127,459	-1,726
Canada Pension Plan (net of securities)	6,391	5,702	-689
Other pension and other accounts	7,253	7,450	197
Total pension and other accounts	142,829	140,611	-2,218
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	294,973	292,458	-2,515
Treasury bills	88,700	94,400	5,700
Canada Savings Bonds	26,099	23,229	-2,870
Other	3,473	3,411	-62
Subtotal	413,245	413,499	254
Payable in foreign currencies	33,158	27,449	-5,709
Total unmatured debt	446,403	440,947	-5,456
Total interest-bearing debt	589,232	581,558	-7,674
Total liabilities	632,876	619,905	-12,971
Assets			
Cash and accounts receivable	19,186	19,151	-35
Foreign exchange accounts	50,270	51,387	1,117
Loans, investments and advances (net of allowances)	16,042	16,647	605
Total assets	85,498	87,186	1,687
Accumulated deficit (net public debt)	547,378	532,719	-14,659

Net financial source of $2.3 billion for April 2001 to February 2002

Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account. The purpose of the Exchange Fund Account is to promote order and stability in the foreign exchange market. The buying of Canadian dollars represents a source of funds from exchange fund transactions, while the selling of Canadian dollars represents a requirement. Changes in foreign currency liabilities, which are undertaken to change the level of Canada's foreign exchange reserves, also impact on foreign exchange transactions. Taking all of these factors into account, there was a net requirement of $1.1 billion in the first 11 months of 2001-02, compared to a net requirement of $3.9 billion in the same period of 2000-01.

With a budgetary surplus of $14.7 billion, a net requirement of $11.3 billion from non-budgetary transactions and a net requirement of $1.1 billion from foreign exchange transactions, there was a net financial source of $2.3 billion in the April 2001 to February 2002 period, compared to a net source of $11.8 billion in the same period of 2000-01.

Net borrowings down $5.5 billion for April 2001 to February 2002

Although there was a net financial source of only $2.3 billion in the first 11 months of 2001-02, the Government did reduce its holding of market debt by $5.5 billion through the drawing down of cash balances. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. At the end of February 2002 they stood at $4.4 billion.

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The Fiscal Monitor

A Publication of the Department of Finance

Highlights

March 2002: budgetary deficit of $4.9 billion

There was a budgetary deficit of $4.9 billion in March 2002, up $2.4 billion from the deficit of $2.5 billion reported in March 2001. The year-over-year increase primarily reflects the impact of the timing of receipts and payments between February and March, which served to overstate the February 2002 surplus. On a year-over-year basis budgetary revenues were $1.3 billion lower, primarily reflecting the timing of corporate income tax revenues, while program spending was $1.9 billion higher, attributable in part to the timing of employment insurance (EI) benefits. Public debt charges declined by $0.8 billion.

April 2001 to March 2002: budgetary surplus of $9.8 billion

The budgetary surplus was estimated at $9.8 billion for the April 2001 to March 2002 period, down $10.3 billion from the surplus of $20.1 billion reported in the same period of 2000-01. The lower surplus to date reflects the ongoing impact of the tax cuts and spending initiatives in the February 2000 budget and October 2000 *Economic Statement and Budget Update*, as well as those announced before and in the December 2001 budget. In addition, the slowdown in the economy in 2001 had an impact on most of the major revenue components and EI benefits, thereby adversely affecting the overall fiscal results, compared to the same period of 2000-01.

These are not the final results for the 2001-02 fiscal year. Still to come are the regular end-of-year accounting adjustments. Consistent with government accounting principles, these adjustments incorporate increases in program spending to include the costs of liabilities incurred during the fiscal year for which no payments were made in 2001-02. For example, the final audited outcome for 2000-01 was $17.1 billion, while the surplus to the end of March 2001 was $20.1 billion. The end-of-year accounting adjustments could be somewhat larger this year than in previous years as the monthly profile of program spending reflects the implementation of the new Financial Information Strategy, with a larger portion of spending likely being recorded at the end of the fiscal year than previously.

The results to date are somewhat better than expected at the time of the December 2001 budget, reflecting the better-than-expected economic performance in the fourth quarter of 2001, which continued into the first quarter of 2002.

Table 1
Summary statement of transactions

	March		April to March	
	2001	2002	2000-01	2001-02
	($ millions)			
Budgetary transactions				
Revenues	13,277	12,024	177,006	174,130
Program spending	-12,201	-14,150	-115,542	-125,643
Operating surplus	1,076	-2,126	61,464	48,487
Public debt charges	-3,564	-2,757	-41,412	-38,709
Budgetary balance (deficit/surplus)	-2,488	-4,883	20,052	9,778
Non-budgetary transactions	6,317	7,327	-485	-3,969
Financial requirements/source (excluding foreign exchange transactions)	3,829	2,444	19,567	5,809
Foreign exchange transactions	-4,716	-732	-8,654	-1,849
Net financial balance	-887	1,712	10,913	3,960
Net change in borrowings	582	267	-10,682	-5,189
Net change in cash balances	-305	1,979	231	-1,229
Cash balance at end of period			13,179	11,950

Note: Positive numbers indicate a net source of funds. Negative numbers indicate a net requirement for funds.

March 2002: budgetary results

Budgetary revenues declined $1.3 billion, or 9.4 per cent, on a year-over-year basis. All major components recorded declines, with the exception of personal income tax revenues.

- Personal income tax revenues were $0.1 billion, or 1.8 per cent, higher, primarily reflecting ongoing strength in monthly deductions from employment income, offset in part by higher refunds pertaining to the 2001 taxation year and increased payments under the Canada Child Tax Benefit reflecting previous budget initiatives.
- Corporate income tax revenues were down $1.1 billion, or 45.8 per cent. Although February is the settlement period for corporations whose taxation year ends December 31, some payments slip into early March. In February and March revenues were down $2.3 billion compared to the same period last year, reflecting lower corporate profits in 2001 than in 2000.
- EI premium revenues declined 3.5 per cent, reflecting the impact of lower premium rates (the employee rate for 2002 is $2.20 per $100 of insurable earnings compared to $2.25 in 2001).
- Excise taxes and duties declined $0.1 billion, or 2.5 per cent. This primarily reflects the timing of receipts, as February 2002 revenues were up 17.2 per cent on a year-over-year basis. Declines were reported in all components, with the exception of sales and excise taxes. The increase in this component was attributable to higher federal taxes on tobacco products effective November 2, 2001.
- Non-tax revenues declined 7.1 per cent, again largely due to the timing of receipts, as February 2002 revenues were up 13.3 per cent on a year-over-year basis.

Program spending was up $1.9 billion, or 16.0 per cent, on a year-over-year basis.

- Transfers to persons increased by $0.5 billion, or 17.8 per cent. EI benefit payments increased 43.6 per cent, in part due to the timing of payments between February and March.

Table 2
Budgetary revenues

	March			April to March		
	2001	2002	Change	2000-01	2001-02	Change
	($ millions)		(%)	($ millions)		(%)
Income taxes						
Personal income tax	4,546	4,628	1.8	81,350	81,760	0.5
Corporate income tax	2,349	1,272	-45.8	27,619	24,637	-10.8
Other income tax revenue	692	655	-5.3	4,216	4,038	-4.2
Total income tax	7,587	6,555	-13.6	113,185	110,435	-2.4
Employment insurance premium revenues	1,839	1,774	-3.5	18,732	17,960	-4.1
Excise taxes and duties						
Goods and services tax	1,619	1,582	-2.3	24,812	25,275	1.9
Customs import duties	274	220	-19.7	2,791	2,979	6.7
Sales and excise taxes	674	700	3.9	8,224	8,641	5.1
Total excise taxes and duties	2,567	2,502	-2.5	35,827	36,895	3.0
Total tax revenues	11,993	10,831	-9.7	167,744	165,290	-1.5
Non-tax revenues	1,284	1,193	-7.1	9,262	8,840	-4.6
Total budgetary revenues	13,277	12,024	-9.4	177,006	174,130	-1.6

In February 2002 benefits were up only 7.3 per cent – the first time the rate of increase had been below double-digit increases since May 2001.

- Transfers to other levels of government were up $0.1 billion, or 5.3 per cent. The increase in the Canada Health and Social Transfer (CHST) reflects the September 2000 agreement reached by first ministers to increase base funding from $13.5 billion in 2000-01 to $17.3 billion in 2001-02.
- Direct program spending, consisting of total program spending less transfers to persons and other levels of government, increased $1.3 billion, or 17.9 per cent. The increase primarily reflects the impact of the implementation of the Financial Information Strategy, with a larger portion of spending being recorded at the end of the fiscal year than in previous years.

Public debt charges, on a year-over year basis, were down $0.8 billion, or 22.6 per cent, primarily reflecting adjustments related to previous months.

April 2001 to March 2002: budgetary results

Over the April 2001 to March 2002 period the budgetary surplus was estimated at $9.8 billion, down $10.3 billion from the surplus of $20.1 billion reported in the same period of 2000-01. Program spending was up $10.1 billion while budgetary revenues were down $2.9 billion. Dampening the impact of these factors on the budgetary balance were lower public debt charges, down $2.7 billion.

Among the major components of budgetary revenues, on a year-over-year basis:

- Personal income tax collections were marginally higher, as higher final tax payments received in April and May 2001 with respect to the 2000 taxation year, prior-year adjustments affecting the October 2000 results, and an increase in assessed income subject to taxation due to higher employment and average wages in 2001 were largely offset by the impact of the tax reduction measures announced in the February 2000 budget, the October 2000 *Economic Statement and Budget Update* and previous budgets.

Table 3

Budgetary expenditures

	March			April to March		
	2001	2002	Change	2000-01	2001-02	Change
	($ millions)		(%)	($ millions)		(%)
Transfer payments to:						
Persons						
Elderly benefits	2,057	2,157	4.9	24,245	25,364	4.6
Employment insurance benefits	1,030	1,479	43.6	10,999	13,852	25.9
Relief for Heating Expenses				1,434		
Total	3,087	3,636	17.8	36,678	39,216	6.9
Other levels of government						
Canada Health and Social Transfer	1,125	1,442	28.2	13,500	17,300	28.1
Fiscal transfers	907	713	-21.4	12,303	12,146	-1.3
Medical Equipment Fund				1,000		
Alternative Payments for Standing Programs	-206	-232	12.6	-2,466	-2,563	3.9
Total	1,826	1,923	5.3	24,337	26,883	10.5
Direct program spending						
Subsidies and other transfers						
Agriculture	633	584	-7.7	1,232	1,298	5.4
Foreign Affairs	291	566	94.5	1,713	2,131	24.4
Health	97	317	226.8	1,107	1,486	34.2
Human Resources Development	363	165	-54.5	1,685	1,711	1.5
Indian and Northern Development	144	345	139.6	3,886	3,944	1.5
Industry and Regional Development	407	836	105.4	1,720	2,157	25.4
Veterans Affairs	125	144	15.2	1,458	1,547	6.1
Other	652	586	-10.1	2,635	3,009	14.2
Total	2,712	3,543	30.6	15,436	17,283	12.0
Payments to Crown corporations						
Canadian Broadcasting Corporation	43	15	-65.1	902	981	8.8
Canada Mortgage and Housing Corporation	320	168	-47.5	1,990	1,923	-3.4
Other	91	188	106.6	1,383	1,667	20.5
Total	454	371	-18.3	4,275	4,571	6.9
Operating and capital expenditures						
Defence	1,436	1,623	13.0	10,992	12,301	11.9
All other departmental expenditures	2,686	3,054	13.7	23,824	25,389	6.6
Total	4,122	4,677	13.5	34,816	37,690	8.3
Total direct program spending	7,288	8,591	17.9	54,527	59,544	9.2
Total program expenditures	12,201	14,150	16.0	115,542	125,643	8.7
Public debt charges	3,564	2,757	-22.6	41,412	38,709	-6.5
Total budgetary expenditures	15,765	16,907	7.2	156,954	164,352	4.7
Memorandum item:						
Total transfers	7,625	9,102	19.4	76,451	83,382	9.1

- Corporate income tax revenues declined $3.0 billion, or 10.8 per cent, reflecting the impact of both lower corporate profits and reductions in tax rates.
- EI premium revenues were down 4.1 per cent, as prior-year adjustments affecting the October 2000 results and the decline in premium rates more than offset the impact of the growth in the number of people employed and therefore paying premiums.
- Excise taxes and duties increased 3.0 per cent. Goods and services tax revenues were up 1.9 per cent, broadly in line with the increase in domestic demand, customs import duties were up 6.7 per cent and sales and excise taxes increased 5.1 per cent, the latter primarily reflecting the impact of higher tobacco excise taxes.
- Non-tax revenues were down 4.6 per cent, primarily reflecting the impact of lower interest rates.

Among the major components of program spending, on a year-over-year basis:

- Transfers to persons were up 6.9 per cent due to higher elderly and EI benefit payments. The increase in elderly benefit payments reflects an increase in the number of individuals eligible for benefits and higher average benefits, which are indexed to inflation. The increase in EI benefit payments primarily reflects the impact of program enhancements, as well as an increase in the number of beneficiaries. The net impact of these increases was dampened by the Relief for Heating Expenses paid in January 2001.
- Transfers to other levels of government were up 10.5 per cent, reflecting higher cash transfers under the CHST. The increase in the CHST reflects the September 2000 agreement reached by first ministers to increase base funding from $13.5 billion in 2000-01 to $17.3 billion in 2001-02. The overall growth in this component was dampened by the special payment of $1 billion to the Medical Equipment Fund in 2000-01 and by a decline in fiscal transfers due to the recording in 2000-01 of the liability for lifting the equalization ceiling in 1999-2000.
- Direct program spending increased 9.2 per cent. This reflects in large part the initiatives announced in the December 2001 budget, notably the measures to enhance personal and economic security.

The year-over-year decline in public debt charges of $2.7 billion reflects the impact of declines in both the stock of interest-bearing debt and the average effective interest rate on that debt.

Financial source of $5.8 billion (excluding foreign exchange transactions) for April 2001 to March 2002

The budgetary balance is presented on a modified accrual basis of accounting, recording government liabilities when they are incurred, regardless of when the cash payment is made. In addition, the budgetary balance includes only those activities over which the Government has legislative control.

In contrast, financial requirements/source measures the difference between cash coming in to the Government and cash going out. Financial requirements/source differs from the budgetary balance as the former includes transactions in loans, investments and advances, federal employees' pension accounts, other specified purpose accounts, and changes in other financial assets and liabilities. These activities are included as part of non-budgetary transactions. The conversion from accrual to cash is also reflected in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of $4.0 billion in the April 2001 to March 2002 period, compared to a net requirement of $0.5 billion in the same period of 2000-01. The increase to date is largely attributable to transfers of applicable pension assets to those Crown corporations setting up their own pension plans.

As a result, with a budgetary surplus of $9.8 billion and a net requirement of $4.0 billion from non-budgetary transactions, there was a financial source (excluding foreign exchange transactions) of $5.8 billion in the April 2001 to March 2002 period, compared to a source of $19.6 billion in the same period of 2000-01.

Table 4

The budgetary balance and financial requirements/source

	March		April to March	
	2001	2002	2000-01	2001-02
		($ millions)		
Budgetary balance (deficit/surplus)	-2,488	-4,883	20,052	9,778
Loans, investments and advances				
Crown corporations	99	371	504	923
Other	-87	-111	-976	-1,268
Total	12	260	-472	-345
Specified purpose accounts				
Canada Pension Plan Account	578	1,053	192	365
Superannuation accounts	-24	-249	1,346	-1,976
Other	8	5	117	201
Total	562	809	1,655	-1,410
Other transactions	5,743	6,258	-1,668	-2,214
Total non-budgetary transactions	6,317	7,327	-485	-3,969
Financial requirements/source (excluding foreign exchange transactions)	3,829	2,444	19,567	5,809
Foreign exchange transactions	-4,716	-732	-8,654	-1,849
Net financial balance	-887	1,712	10,913	3,960

Table 5

Net financial balance and net borrowings

	March		April to March	
	2001	2002	2000-01	2001-02
		($ millions)		
Net financial balance	-887	1,712	10,913	3,960
Net increase (+)/decrease (-) in borrowings				
Payable in Canadian dollars				
Marketable bonds	-9,694	916	700	-1,598
Treasury bills	7,000	-200	-11,150	5,500
Canada Savings Bonds	18	-16	-736	-2,886
Other	-17	-20	-79	-83
Total	-2,693	680	-11,265	933
Payable in foreign currencies				
Marketable bonds	3,003	218	-1,164	-1,358
Notes and loans	-1,385	0	0	-514
Canada bills	1,094	-584	1,220	-3,872
Canada notes	563	-47	527	-378
Total	3,275	-413	583	-6,122
Net change in borrowings	582	267	-10,682	-5,189
Change in cash balance	-305	1,979	231	-1,229

Table 6

Condensed statement of assets and liabilities

	March 31, 2001	March 31, 2002	Change
		($ millions)	
Liabilities			
Accounts payable, accruals and allowances	43,644	38,270	-5,374
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	129,185	127,209	-1,976
Canada Pension Plan (net of securities)	6,391	6,756	365
Other pension and other accounts	7,253	7,454	201
Total pension and other accounts	142,829	141,419	-1,410
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	294,973	293,375	-1,598
Treasury bills	88,700	94,200	5,500
Canada Savings Bonds	26,099	23,213	-2,886
Other	3,473	3,391	-82
Subtotal	413,245	414,180	935
Payable in foreign currencies	33,158	27,036	-6,122
Total unmatured debt	446,403	441,215	-5,188
Total interest-bearing debt	589,232	582,634	-6,598
Total liabilities	632,876	620,904	-11,973
Assets			
Cash and accounts receivable	19,186	14,796	-4,390
Foreign exchange accounts	50,270	52,119	1,849
Loans, investments and advances (net of allowances)	16,042	16,387	345
Total assets	85,498	83,303	-2,196
Accumulated deficit (net public debt)	547,378	537,601	-9,778

Net financial source of $4.0 billion for April 2001 to March 2002

Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account. The purpose of the Exchange Fund Account is to promote order and stability in the foreign exchange market. The buying of Canadian dollars represents a source of funds from exchange fund transactions, while the selling of Canadian dollars represents a requirement. Changes in foreign currency liabilities, which are undertaken to change the level of Canada's foreign exchange reserves, also impact on foreign exchange transactions. Taking all of these factors into account, there was a net requirement of $1.8 billion in the April 2001 to March 2002 period, compared to a net requirement of $8.7 billion in the same period of 2000-01.

With a budgetary surplus of $9.8 billion, a net requirement of $4.0 billion from non-budgetary transactions and a net requirement of $1.8 billion from foreign exchange transactions, there was a net financial source of $4.0 billion in the April 2001 to March 2002 period, compared to a net source of $10.9 billion in the same period of 2000-01.

Net borrowings down $5.2 billion for April 2001 to March 2002

In 2001-02 the Government reduced its holding of market debt by $5.2 billion by applying the net financial source of $4.0 billion and drawing down its cash balances by $1.2 billion. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. At the end of March 2002 they stood at $12.0 billion.

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The Fiscal Monitor

A Publication of the Department of Finance

Highlights of financial results for April 2002

Budgetary surplus of $0.9 billion in April 2002

There was a budgetary surplus of $0.9 billion in April 2002, down $2.6 billion from the revised surplus of $3.5 billion in April 2001.[1] On a year-over-year basis, the lower surplus was attributable to a decline in budgetary revenues (down $2.4 billion) and higher program spending (up $0.8 billion). The impact of these developments was partially offset by lower public debt charges (down $0.5 billion).

The decline of $2.4 billion, or 14.6 per cent, in budgetary revenues on a year-over year basis was spread throughout all the major components except excise taxes and duties.

- Personal income tax collections were down $2.1 billion, or 24.6 per cent. Most of this decline was attributable to lower final tax settlement payments and higher refunds with respect to the 2001 tax year. Final tax settlement payments in April 2001 were extraordinarily high, reflecting, among others things, strong increases in capital gains in the 2000 tax year. However, the decline in the stock market in 2001, coupled with the impact of lower interest rates on other components of investment income, resulted in much lower final tax settlement payments and higher refunds. Monthly deductions from employment income were somewhat lower, reflecting the timing of receipts and the impact of the tax reduction measures announced in the February 2000 budget and October 2000 *Economic Statement and Budget Update*.
- Corporate income tax collections declined $0.7 billion, or 30.5 per cent, primarily attributable to higher refunds reflecting the weakness in corporate profits in 2001.
- Employment insurance (EI) premium revenues were down 2.7 per cent, largely due to the decline in premium rates (the employee rate for 2002 is $2.20 per $100 of insurable earnings compared to $2.25 in 2001).
- Excise taxes and duties were up $0.6 billion, or 23.7 per cent, primarily reflecting strong growth in imports, which resulted in higher GST revenues and customs import duties. Sales and excise taxes were also higher, primarily attributable to the increase in tobacco taxes.
- Non-tax revenues were down 14.4 per cent.

Program spending increased by $0.8 billion, or 8.7 per cent, on a year-over-year basis.

- Major transfers to persons were up $0.4 billion, or 12.3 per cent. The increase in elderly benefits reflects an increase in the number of individuals eligible for benefits and higher average benefits, which are indexed to inflation. The increase in EI benefits was attributable to both higher regular benefits, reflecting an increase in the number of beneficiaries, and program enhancements.
- Major transfers to other levels of government were up $53 million, or 2.4 per cent, attributable to higher cash transfers under the Canada Health and Social Transfer, reflecting the September 2000 agreement reached by first ministers to increase base funding from

[1] The budgetary surplus for April 2001 was originally estimated at $4.6 billion. However, this result was affected by systems problems relating to personal income tax and goods and services tax (GST) refunds. This had the effect of overstating the April 2001 surplus by $1.1 billion and understating the surplus in the May and June period by a comparable amount. This will have no impact on the final results for the year as a whole.

Table 1
Summary statement of transactions

	April	
	2001	2002
	($ millions)	
Budgetary transactions		
Revenues	16,126	13,776
Program spending	-9,226	-10,029
Operating surplus	6,900	3,747
Public debt charges	-3,389	-2,875
Budgetary balance (deficit/surplus)	3,511	872
Non-budgetary transactions	-3,952	-5,552
Financial requirements/source (excluding foreign exchange transactions)	-441	-4,680
Foreign exchange transactions	158	-668
Net financial balance	-283	-5,348
Net change in borrowings	70	-940
Net change in cash balances	-213	-6,288
Cash balance at end of period	5,818	12,965

Note: Positive numbers indicate a net source of funds. Negative numbers indicate a net requirement for funds. Estimates for April 2001 have been revised from those previously published.

$17.3 billion in 2001-02 to $18.6 billion in 2002-03. The decline in fiscal transfers was primarily attributable to the timing of payments, which should be reversed in future months.

- Direct program spending, consisting of total program spending less major transfers to persons and other levels of government, increased by $0.4 billion, or 9.2 per cent. Subsidies and other transfers and payments to Crown corporations declined, while operating and capital expenditures were higher. The monthly fluctuations in these components are due in large part to the timing of payments.

Public debt charges were down $0.5 billion, or 15.2 per cent, attributable to both a decline in the stock of interest-bearing debt and a lower average effective interest rate on that debt.

Financial requirement of $4.7 billion (excluding foreign exchange transactions) in April 2002

The budgetary balance is presented on a modified accrual basis of accounting, recording government liabilities when they are incurred, regardless of when the cash payment is made. In addition, the budgetary balance includes only those activities over which the Government has legislative control.

In contrast, financial requirements/source measures the difference between cash coming in to the Government and cash going out. Financial requirements/source differs from the budgetary balance as the former includes transactions in loans, investments and advances, federal

Table 2
Budgetary revenues

	April		
	2001	2002	Change
	($ millions)		(%)
Income taxes			
Personal income tax	8,539	6,436	-24.6
Corporate income tax	2,146	1,492	-30.5
Other income tax revenue	364	332	-8.8
Total income tax	11,049	8,260	-25.2
Employment insurance premium revenues	1,809	1,760	-2.7
Excise taxes and duties			
Goods and services tax	1,703	2,151	26.3
Customs import duties	169	257	52.1
Sales and excise taxes	645	705	9.3
Total excise taxes and duties	2,517	3,113	23.7
Total tax revenues	15,375	13,133	-14.6
Non-tax revenues	751	643	-14.4
Total budgetary revenues	16,126	13,776	-14.6

employees' pension accounts, other specified purpose accounts, and changes in other financial assets and liabilities. These activities are included as part of non-budgetary transactions. The conversion from accrual to cash is also reflected in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of $5.6 billion in April 2002, up from a net requirement of $4.0 billion in April 2001. The higher requirement is primarily due to timing factors affecting the other transactions component.

With a budgetary surplus of $0.9 billion and a net requirement of $5.6 billion from non-budgetary transactions, there was a financial requirement (excluding foreign exchange transactions) of $4.7 billion in April 2002, compared to a requirement of $0.4 billion in April 2001.

Net financial requirement of $5.3 billion in April 2002

Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account (EFA). The objectives of the EFA are to provide general foreign currency liquidity for the Government and promote orderly conditions in the foreign exchange market. The EFA contains foreign currency investments, the Government's gold holdings and assets related to Canada's commitment to the International Monetary Fund (IMF). Increases in the level of the reserves through borrowings, contributions to the IMF or selling of Canadian dollars represent a requirement. Conversely, decreases in the level of reserves represent a source of funds. Taking all of these factors into account, there was a net requirement of $0.7 billion in April 2002, compared to a net source of $0.2 billion in April 2001.

Table 3

Budgetary expenditures

	April		
	2001	2002	Change
	($ millions)		(%)
Transfer payments to:			
Persons			
Elderly benefits	2,063	2,166	5.0
Employment insurance benefits	1,113	1,402	26.0
Total	3,176	3,568	12.3
Other levels of government			
Canada Health and Social Transfer	1,441	1,550	7.6
Fiscal transfers	923	877	-5.0
Alternative Payments for Standing Programs	-200	-210	5.0
Total	2,164	2,217	2.4
Direct program spending			
Subsidies and other transfers			
Agriculture	38	16	-57.9
Foreign Affairs	122	41	-66.4
Health	10	110	1,000.0
Human Resources Development	26	70	169.2
Indian and Northern Development	690	609	-11.7
Industry and Regional Development	112	109	-2.7
Veterans Affairs	118	143	21.2
Other	306	163	-46.7
Total	1,422	1,261	-11.3
Payments to Crown corporations			
Canadian Broadcasting Corporation	200	182	-9.0
Canada Mortgage and Housing Corporation	158	171	8.2
Other	221	225	1.8
Total	579	578	-0.2
Operating and capital expenditures			
Defence	505	580	14.9
All other departmental expenditures	1,380	1,825	32.2
Total	1,885	2,405	27.6
Total direct program spending	3,886	4,244	9.2
Total program expenditures	9,226	10,029	8.7
Public debt charges	3,389	2,875	-15.2
Total budgetary expenditures	12,615	12,904	2.3
Memorandum item:			
Total transfers	6,762	7,046	4.2

Table 4

The budgetary balance and financial requirements/source

	April	
	2001	2002
	($ millions)	
Budgetary balance (deficit/surplus)	3,511	872
Loans, investments and advances		
Crown corporations	132	13
Other	-14	8
Total	118	21
Specified purpose accounts		
Canada Pension Plan Account	-400	-129
Superannuation accounts	46	-45
Other	21	-38
Total	-333	-212
Other transactions	-3,737	-5,361
Total non-budgetary transactions	-3,952	-5,552
Financial requirements/source (excluding foreign exchange transactions)	-441	-4,680
Foreign exchange transactions	158	-668
Net financial balance	-283	-5,348

Table 5

Net financial balance and net borrowings

	April	
	2001	2002
	($ millions)	
Net financial balance	-283	-5,348
Net increase (+)/decrease (-) in borrowings		
Payable in Canadian dollars		
Marketable bonds	1,371	-5,200
Treasury bills	-700	4,300
Canada Savings Bonds	-1	-57
Other	0	0
Total	670	-957
Payable in foreign currencies		
Marketable bonds	0	0
Notes and loans	0	0
Canada bills	-490	17
Canada notes	-110	0
Total	-600	17
Net change in borrowings	70	-940
Change in cash balance	-213	-6,288

Table 6

Condensed statement of assets and liabilities

	March 31, 2002	April 30, 2002	Change
		($ millions)	
Liabilities			
Accounts payable, accruals and allowances	41,014	39,486	-1,528
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	127,209	127,164	-45
Canada Pension Plan (net of securities)	6,756	6,627	-129
Other pension and other accounts	7,454	7,416	-38
Total pension and other accounts	141,419	141,207	-212
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	293,865	288,665	-5,200
Treasury bills	94,200	98,500	4,300
Canada Savings Bonds	23,759	23,702	-57
Other	3,390	3,390	0
Subtotal	415,214	414,257	-957
Payable in foreign currencies	27,033	27,050	17
Total unmatured debt	442,247	441,307	-940
Total interest-bearing debt	583,666	582,514	-1,152
Total liabilities	624,680	622,000	-2,680
Assets			
Cash and accounts receivable	14,796	13,635	-1,161
Foreign exchange accounts	52,119	51,451	-668
Loans, investments and advances (net of allowances)	16,387	16,408	21
Total assets	83,302	81,494	-1,808
Accumulated deficit (net public debt)[1]	541,378	540,506	-872

[1] Assumes a fiscal balance of $6 billion for 2001-02.

With a budgetary surplus of $0.9 billion, a net requirement of $5.6 billion from non-budgetary transactions and a net requirement of $0.7 billion from foreign exchange transactions, there was a net financial requirement of $5.3 billion in April 2002, compared to a net requirement of $0.3 billion in April 2001.

Net borrowings down slightly

This financial requirement was financed by a drawdown in cash balances of $6.3 billion, which also resulted in a decrease of $0.9 billion in net borrowings. Cash balances at the end of April 2002 stood at $13.0 billion. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis.

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The Fiscal Monitor

A Publication of the Department of Finance

Highlights

May 2002: budgetary deficit of $116 million

There was a budgetary deficit of $116 million in May 2002, compared to a surplus of $3.2 billion in May 2001.[1] This year-over-year deterioration in the budgetary balance was primarily attributable to the impact of the global economic slowdown in 2001, particularly its effect on corporate profits and the stock market, which caused a sharp increase in both personal and corporate income tax refunds and significantly lower final personal income tax settlement payments with respect to the 2001 tax year. Budgetary revenues declined $3.0 billion in May 2002 compared to May 2001. Total expenditures were up $0.4 billion, as an increase in program spending was partially offset by lower public debt charges.

April and May 2002: budgetary surplus of $755 million

The budgetary surplus was estimated at $755 million for the April and May 2002 period, compared to the surplus of $6.8 billion reported in the same period of 2001-02. The decline in the year-over-year surplus was largely attributable to developments affecting final income tax payments with respect to the 2001 tax year, as noted above. This decline was expected given the extraordinary net capital gains realizations in the 2000 tax year, which resulted in record high final income tax payments in April and May 2001, and the decline in the stock market in 2001, which resulted in higher refunds and lower settlement payments in April and May 2002.

[1] Budgetary revenues over the April to June period last year were affected by systems problems relating to personal income tax and goods and services tax refunds. This had the effect of overstating the April 2001 budgetary surplus and understating the surpluses in May and June. This will have no impact on the final results for the year as a whole. The May 2001 surplus was originally estimated at $2.9 billion.

May 2002: budgetary results

Budgetary revenues declined $3.0 billion, or 18.8 per cent, in May 2002, on a year-over-year basis. All components except excise taxes and duties were lower.

- Personal income tax revenues declined $2.3 billion, or 29.6 per cent, as higher refunds and lower final settlement payments related to the 2001 tax year more than offset an increase in tax deductions from employment income. This decline primarily reflects the drop in net capital gains realizations in 2001, following a year of extraordinary gains in 2000.
- Corporate income tax revenues were down $0.7 billion, or 30.3 per cent, primarily due to higher refunds relating to the overpayment of taxes in the past. This decline reflects the weakness in corporate profits in 2001.

Table 1
Summary statement of transactions

	May		April to May	
	2001	2002	2001-02	2002-03
	($ millions)			
Budgetary transactions				
Revenues	15,798	12,829	31,924	26,604
Program spending	-9,144	-9,977	-18,370	-20,006
Operating surplus	6,654	2,852	13,554	6,598
Public debt charges	-3,405	-2,968	-6,794	-5,843
Budgetary balance (deficit/surplus)	3,249	-116	6,760	755
Non-budgetary transactions	1,489	856	-2,462	-4,699
Financial requirements/source (excluding foreign exchange transactions)	4,738	740	4,298	-3,944
Foreign exchange transactions	-295	20	-137	-648
Net financial balance	4,443	760	4,161	-4,592
Net change in borrowings	-883	6,438	-813	5,498
Net change in cash balances	3,560	7,198	3,348	906
Cash balance at end of period			16,530	12,856

Note: Positive numbers indicate a net source of funds. Negative numbers indicate a net requirement for funds.
Estimates for April and May 2001 have been revised from those previously published.

- Employment insurance (EI) premium revenues were virtually unchanged, as the decline in premium rates (the employee rate for 2002 is $2.20 per $100 of insurable earnings compared to $2.25 in 2001) offset the impact of the growth in the number of people employed and therefore paying premiums.
- Excise taxes and duties were up $0.1 billion, or 4.6 per cent. Most of the increase reflects higher excise taxes and duties on tobacco products.
- Non-tax revenues declined, primarily reflecting the timing of receipts.

On a year-over-year basis, program spending increased by $0.8 billion, or 9.1 per cent. Among the major components:

- Transfers to persons were up 10.6 per cent. Elderly benefits increased 5.8 per cent, reflecting an increase in the number of individuals receiving benefits and higher average benefits, which are indexed to inflation. The increase of 22.2 per cent in EI benefits was attributable to both higher regular benefits, reflecting an increase in the number of beneficiaries, and program enhancements.
- Transfers to other levels of government were up 6.1 per cent, reflecting higher cash transfers under the Canada Health and Social Transfer (CHST) and fiscal transfers. The increase in the CHST reflected the September 2000 agreement reached by first ministers to increase base funding from $17.3 billion in 2001-02 to $18.6 billion in 2002-03. The increase in fiscal transfers was attributable to higher equalization entitlements.
- Direct program spending, consisting of total program spending less transfers to persons and other levels of government, increased by 9.8 per cent. Subsidies and other transfers declined 15.6 per cent, while payments to

Table 2
Budgetary revenues

	May			April to May		
	2001	2002	Change	2001-02	2002-03	Change
	($ millions)		(%)	($ millions)		(%)
Income taxes						
Personal income tax	7,639	5,376	-29.6	16,178	11,810	-27.0
Corporate income tax	2,373	1,654	-30.3	4,519	3,146	-30.4
Other income tax revenue	305	232	-23.9	670	564	-15.8
Total income tax	10,317	7,262	-29.6	21,367	15,520	-27.4
Employment insurance premium revenues	1,770	1,751	-1.1	3,579	3,511	-1.9
Excise taxes and duties						
Goods and services tax	2,127	2,181	2.5	3,830	4,332	13.1
Customs import duties	226	231	2.2	395	488	23.5
Sales and excise taxes	736	819	11.3	1,382	1,524	10.3
Total excise taxes and duties	3,089	3,231	4.6	5,607	6,344	13.1
Total tax revenues	15,176	12,244	-19.3	30,553	25,375	-16.9
Non-tax revenues	622	585	-5.8	1,371	1,229	-10.4
Total budgetary revenues	15,798	12,829	-18.8	31,924	26,604	-16.7

Crown corporations and operating and capital expenditures were up strongly. The monthly fluctuations in these components are due in large part to the timing of payments.

Public debt charges, on a year-over year basis, declined 12.8 per cent, solely attributable to a decrease in the average effective interest rate, as the stock of interest-bearing debt was slightly higher.

April and May 2002: budgetary results

Over the first two months of fiscal year 2002-03, the budgetary surplus was estimated at $755 million, down $6.0 billion from the surplus of $6.8 billion reported in the same period of 2001-02. This decline, which was expected, reflected lower budgetary revenues, largely attributable to developments related to the 2001 tax year, and higher program spending. In contrast, public debt charges were lower.

Budgetary revenues were down $5.3 billion, or 16.7 per cent, on a year-over-year basis. Among the major components:

- Personal income tax collections declined $4.4 billion, or 27.0 per cent. Virtually all of this decline was attributable to lower final tax payments and higher refunds with respect to the 2001 tax year, reflecting weakness in economic activity in 2001 and its effect on the stock market and net capital gains realizations. However, it should be noted that the results for the same period in 2001 were affected by the extraordinary stock market gains in 2000, which resulted in record final tax settlement payments in April and May 2001. The results to date were also dampened by the impact of the tax reduction measures announced in the February 2000 budget and the October 2000 *Economic Statement and Budget Update*.

Table 3

Budgetary expenditures

	May			April to May		
	2001	2002	Change	2001-02	2002-03	Change
	($ millions)		(%)	($ millions)		(%)
Transfer payments to:						
Persons						
Elderly benefits	2,091	2,212	5.8	4,154	4,377	5.4
Employment insurance benefits	875	1,069	22.2	1,988	2,471	24.3
Total	2,966	3,281	10.6	6,142	6,848	11.5
Other levels of government						
Canada Health and Social Transfer	1,442	1,550	7.5	2,883	3,100	7.5
Fiscal transfers	1,117	1,164	4.2	2,041	2,040	0.0
Alternative Payments for Standing Programs	-200	-210	5.0	-400	-420	5.0
Total	2,359	2,504	6.1	4,524	4,720	4.3
Direct program spending						
Subsidies and other transfers						
Agriculture	192	40	-79.2	230	57	-75.2
Foreign Affairs	62	86	38.7	184	125	-32.1
Health	188	132	-29.8	198	242	22.2
Human Resources Development	127	111	-12.6	152	181	19.1
Indian and Northern Development	225	253	12.4	916	862	-5.9
Industry and Regional Development	40	59	47.5	152	168	10.5
Veterans Affairs	124	138	11.3	242	281	16.1
Other	181	142	-21.5	490	302	-38.4
Total	1,139	961	-15.6	2,564	2,218	-13.5
Payments to Crown corporations						
Canadian Broadcasting Corporation	40	76	90.0	240	258	7.5
Canada Mortgage and Housing Corporation	158	159	0.6	316	330	4.4
Other	106	134	26.4	329	360	9.4
Total	304	369	21.4	885	948	7.1
Operating and capital expenditures						
Defence	502	796	58.6	1,007	1,377	36.7
All other departmental expenditures	1,874	2,066	10.2	3,248	3,895	19.9
Total	2,376	2,862	20.5	4,255	5,272	23.9
Total direct program spending	3,819	4,192	9.8	7,704	8,438	9.5
Total program expenditures	9,144	9,977	9.1	18,370	20,006	8.9
Public debt charges	3,405	2,968	-12.8	6,794	5,843	-14.0
Total budgetary expenditures	12,549	12,945	3.2	25,164	25,849	2.7
Memorandum item:						
Total transfers	6,464	6,746	4.4	13,230	13,786	4.2

- Corporate income tax revenues were down $1.4 billion, or 30.4 per cent. This was primarily attributable to higher refunds pertaining to previous years' taxes paid. In addition, monthly instalment payments are lower as they are largely based on 2001 tax liabilities, a year in which corporate profits declined.
- EI premium revenues were down marginally, primarily due to the lower premium rates in effect for 2002.
- Excise taxes and duties increased by $0.7 billion, or 13.1 per cent, primarily reflecting higher customs import duties and the increases in tobacco excise taxes and duties.
- Non-tax revenues were down 10.4 per cent.

Program spending increased by $1.6 billion, or 8.9 per cent, in the April and May 2002 period, compared to the same period last year.

- Transfers to persons were up 11.5 per cent, reflecting both higher elderly and EI benefits.
- Transfers to other levels of government were up 4.3 per cent, attributable to higher cash transfers under the CHST. Entitlements under the fiscal transfer programs were virtually unchanged, primarily reflecting the timing of payments.
- Direct program spending, consisting of total program spending less transfers to persons and other levels of government, increased by 9.5 per cent. During the first few months of the fiscal year, developments in this component are largely affected by the timing of payments.

Public debt charges declined by $1.0 billion, or 14.0 per cent, due to the lower average effective interest rate on the stock of debt.

Financial requirement of $3.9 billion (excluding foreign exchange transactions) for April and May 2002

The budgetary balance is presented on a modified accrual basis of accounting, recording government liabilities when they are incurred, regardless of when the cash payment is made. In addition, the budgetary balance includes only those activities over which the Government has legislative control.

In contrast, financial requirements/source measures the difference between cash coming in to the Government and cash going out. Financial requirements/source differs from the budgetary balance as the former includes transactions in loans, investments and advances, federal employees' pension accounts, other specified purpose accounts, and changes in other financial assets and liabilities. These activities are included as part of non-budgetary transactions. The conversion from accrual to cash is also reflected in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of $4.7 billion in the first two months of 2002-03, compared to a net requirement of $2.5 billion in the same period in 2001-02.

As a result, with a budgetary surplus of $0.8 billion and a net requirement of $4.7 billion from non-budgetary transactions, there was a financial requirement (excluding foreign exchange transactions) of $3.9 billion in the April and May 2002 period, compared to a financial source of $4.3 billion in the same period in 2001-02.

Net financial requirement of $4.6 billion for April and May 2002

Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account (EFA). The objectives of the EFA are to provide general foreign-currency liquidity for the Government and promote orderly conditions in the foreign exchange market. The EFA contains foreign-currency investments, the Government's gold holdings and assets related to Canada's commitment to the International Monetary Fund (IMF). Increases in the level of the reserves through borrowings, contributions to the IMF, and/or selling of Canadian dollars represent a requirement. Conversely, decreases in the level of reserves represent a source of funds. Taking all of these factors into account, there was a net requirement of $0.6 billion in the first two months of 2002-03, compared to a net requirement of $0.1 billion in the same period in 2001-02.

Table 4

The budgetary balance and financial requirements/source

	May		April to May	
	2001	2002	2001-02	2002-03
		($ millions)		
Budgetary balance (deficit/surplus)	3,249	-116	6,760	755
Loans, investments and advances				
Crown corporations	48	2	180	15
Other	-43	21	-57	30
Total	5	23	123	45
Specified purpose accounts				
Canada Pension Plan Account	627	401	227	272
Superannuation accounts	-241	-43	-193	-89
Other	31	-15	51	-52
Total	417	343	85	131
Other transactions	1,067	490	-2,670	-4,875
Total non-budgetary transactions	1,489	856	-2,462	-4,699
Financial requirements/source (excluding foreign exchange transactions)	4,738	740	4,298	-3,944
Foreign exchange transactions	-295	20	-137	-648
Net financial balance	4,443	760	4,161	-4,592

Table 5

Net financial balance and net borrowings

	May		April to May	
	2001	2002	2001-02	2002-03
		($ millions)		
Net financial balance	4,443	760	4,161	-4,592
Net increase (+)/decrease (-) in borrowings				
Payable in Canadian dollars				
Marketable bonds	-225	3,045	1,146	-2,155
Canada Savings Bonds	-79	-94	-80	-151
Treasury bills	-300	3,700	-1,000	8,000
Other		-2		-2
Total	-604	6,649	66	5,692
Payable in foreign currencies				
Marketable bonds	-1,576	0	-1,576	0
Notes and loans				
Canada bills	1,360	-211	870	-194
Canada notes	-63	0	-173	0
Total	-279	-211	-879	-194
Net change in borrowings	-883	6,438	-813	5,498
Change in cash balance	3,560	7,198	3,348	906

Table 6

Condensed statement of assets and liabilities[1]

	March 31, 2002	May 31, 2002	Change
		($ millions)	
Liabilities			
Accounts payable, accruals and allowances	41,014	36,867	-4,147
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	127,209	127,120	-89
Canada Pension Plan (net of securities)	6,756	7,028	272
Other pension and other accounts	7,454	7,402	-52
Total pension and other accounts	141,419	141,550	131
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	293,865	291,710	-2,155
Treasury bills	94,200	102,200	8,000
Canada Savings Bonds	23,759	23,608	-151
Other	3,390	3,388	-2
Subtotal	415,214	420,906	5,692
Payable in foreign currencies	27,033	26,839	-194
Total unmatured debt	442,247	447,745	5,498
Total interest-bearing debt	583,666	589,295	5,629
Total liabilities	624,680	626,162	1,482
Assets			
Cash and accounts receivable	14,796	16,430	1,634
Foreign exchange accounts	52,119	52,767	648
Loans, investments and advances (net of allowances)	16,387	16,342	-45
Total assets	83,302	85,539	2,237
Accumulated deficit (net public debt)	541,378	540,623	-755

[1] Assumes a fiscal balance of $6 billion for 2001-02.

With a budgetary surplus of $0.8 billion, a net requirement of $4.7 billion from non-budgetary transactions and a net requirement of $0.6 billion from foreign exchange transactions, there was a net financial requirement of $4.6 billion in the April and May 2002 period, compared to a net source of $4.2 billion in the same period in 2001-02.

Net borrowings up $5.5 billion for April and May 2002

To finance this net financial requirement, the Government increased its holding of market debt by $5.5 billion to the end of May 2002 and raised its cash balances by $0.9 billion to $12.9 billion. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis.

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The Fiscal Monitor

A Publication of the Department of Finance

Highlights

June 2002: budgetary surplus of $4.0 billion

There was a budgetary surplus of $4.0 billion in June 2002, compared to a surplus of $2.8 billion in June 2001.[1] Since 1996-97 large surpluses have been recorded in the month of June, primarily reflecting the inclusion of quarterly personal income tax instalment payments. Most of the year-over-year improvement in the budgetary balance is attributable to higher budgetary revenues, in part reflecting strong employment gains since the beginning of the year. In addition, there were one-time technical factors that impacted positively on revenues in June 2002, including adjustments pertaining to previous months and timing of receipts.

April to June 2002: budgetary surplus of $4.8 billion

The budgetary surplus is estimated at $4.8 billion for the April to June 2002 period, compared to a surplus of $9.6 billion reported in the same period of 2001-02. The decline in the year-over-year surplus is largely attributable to developments affecting final personal income tax payments with respect to the 2001 tax year. This decline was expected given the extraordinary net capital gains realizations in the 2000 tax year, which resulted in record high final income tax payments in April and May 2001, and the decline in the stock market in 2001, which resulted in higher refunds and lower settlement payments in April and May 2002.

[1] Budgetary revenues over the April to June period last year were affected by systems problems relating to personal income tax and goods and services tax (GST) refunds. This had the effect of overstating the April 2001 budgetary surplus and understating the surpluses in May and June. This will have no impact on the final results for the year as a whole. The June 2001 surplus was originally estimated at $2.5 billion.

June 2002: budgetary results

Budgetary revenues increased $1.3 billion, or 8.3 per cent, in June 2002 on a year-over-year basis.

- Personal income tax revenues increased $0.9 billion, or 11.8 per cent, primarily reflecting higher tax deductions from employment income, attributable to the strong growth in employment since the beginning of the year. In addition, the timing of receipts and adjustments pertaining to previous periods contributed to the gain in June 2002.
- Corporate income tax revenues were down $0.1 billion, or 5.1 per cent, attributable to higher refunds relating to the overpayment of taxes in the past.
- Employment insurance (EI) premium revenues were virtually unchanged, as the decline in premium rates (the employee rate for 2002 is $2.20 per $100 of insurable earnings compared to $2.25 in 2001) offset the impact of the growth in the number of people employed and therefore paying premiums.

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Table 1
Summary statement of transactions

	June		April to June	
	2001	2002	2001-02	2002-03
	($ millions)			
Budgetary transactions				
Revenues	15,349	16,627	47,274	43,232
Program spending	-9,446	-9,569	-27,816	-29,599
Operating surplus	5,903	7,058	19,458	13,633
Public debt charges	-3,111	-3,022	-9,904	-8,865
Budgetary balance (deficit/surplus)	2,792	4,036	9,554	4,768
Non-budgetary transactions	-7,887	-7,887	-10,348	-12,559
Financial requirements/source (excluding foreign exchange transactions)	-5,095	-3,851	-794	-7,791
Foreign exchange transactions	449	-607	312	-1,255
Net financial balance	-4,646	-4,458	-482	-9,046
Net change in borrowings	-8,170	-3,419	-8,983	2,078
Net change in cash balances	-12,816	-7,877	-9,465	-6,968
Cash balance at end of period			3,708	4,979

Note: Positive numbers indicate a net source of funds. Negative numbers indicate a net requirement for funds. Monthly estimates for 2001-02 have been revised from those previously published.

- Excise taxes and duties were up $0.3 billion, or 10.5 per cent, primarily attributable to a strong gain in GST revenues, reflecting both increases in gross collections and lower refunds.
- Non-tax revenues were up sharply, reflecting the timing of receipts. They were down in May.

On a year-over-year basis, program spending increased by $0.1 billion, or 1.3 per cent, as lower defence spending and subsidies and other transfers offset much of the increases in the other major components.

- Transfers to persons were up 7.9 per cent. Elderly benefits increased 6.5 per cent, reflecting an increase in the number of individuals receiving benefits and higher average benefits, which are indexed to inflation. The increase of 10.9 per cent in EI benefits was attributable to both higher regular benefits, reflecting an increase in the number of beneficiaries, and program enhancements.
- Transfers to other levels of government were up 4.2 per cent, reflecting higher cash transfers under the Canada Health and Social Transfer (CHST). This increase reflects the September 2000 agreement reached by first ministers to increase base funding from $17.3 billion in 2001-02 to $18.6 billion in 2002-03.
- Direct program spending, consisting of total program spending less transfers to persons and other levels of government, declined by 4.9 per cent, reflecting lower subsidies and other transfers and defence spending. The monthly fluctuations in these components are due in large part to the timing of payments.

Public debt charges, on a year-over year basis, declined 2.9 per cent, solely attributable to a decrease in the average effective interest rate, as the stock of interest-bearing debt was slightly higher.

Table 2
Budgetary revenues

	June			April to June		
	2001	2002	Change	2001-02	2002-03	Change
	($ millions)		(%)	($ millions)		(%)
Income taxes						
Personal income tax	7,382	8,250	11.8	23,560	20,062	-14.8
Corporate income tax	2,312	2,194	-5.1	6,832	5,340	-21.8
Other income tax revenue	243	242	-0.4	913	806	-11.7
Total income tax	9,937	10,686	7.5	31,305	26,208	-16.3
Employment insurance premium revenues	1,748	1,729	-1.1	5,327	5,240	-1.6
Excise taxes and duties						
Goods and services tax	1,916	2,177	13.6	5,747	6,508	13.2
Customs import duties	278	314	12.9	673	802	19.2
Sales and excise taxes	794	783	-1.4	2,174	2,285	5.1
Air Travellers Security Charge		28			48	
Total excise taxes and duties	2,988	3,302	10.5	8,594	9,643	12.2
Total tax revenues	14,673	15,717	7.1	45,226	41,091	-9.1
Non-tax revenues	676	910	34.6	2,048	2,141	4.5
Total budgetary revenues	15,349	16,627	8.3	47,274	43,232	-8.6

April to June 2002: budgetary results

Over the first three months of fiscal year 2002-03, the budgetary surplus was estimated at $4.8 billion, compared to a surplus of $9.6 billion reported in the same period of 2001-02. This decline reflects lower budgetary revenues, largely attributable to developments related to the 2001 tax year, and higher program spending. In contrast, public debt charges were lower.

Budgetary revenues were down $4.0 billion, or 8.6 per cent, on a year-over-year basis. Among the major components:

- Personal income tax collections declined $3.5 billion, or 14.8 per cent. Virtually all of this decline is attributable to lower final tax payments and higher refunds with respect to the 2001 tax year, reflecting weakness in the stock market and the associated lower net capital gains realizations. However, it should be noted that the results for the same period in 2001 were affected by the extraordinary stock market gains in 2000, which resulted in record final tax settlement payments in April and May 2001. The results to date were also dampened by the impact of the tax reduction measures announced in the February 2000 budget and October 2000 *Economic Statement and Budget Update*. Partially offsetting these impacts were higher taxes associated with increases in employment income.
- Corporate income tax revenues were down $1.5 billion, or 21.8 per cent. This is primarily attributable to higher refunds pertaining to previous years' taxes paid. In addition, monthly instalment payments are lower as they are largely based on 2001 tax liabilities, a year in which corporate profits declined.
- EI premium revenues were down marginally, primarily due to the lower premium rates in effect for 2002.

Table 3

Budgetary expenditures

	June			April to June		
	2001	2002	Change	2001-02	2002-03	Change
	($ millions)		(%)	($ millions)		(%)
Transfer payments to:						
Persons						
Elderly benefits	2,050	2,184	6.5	6,204	6,562	5.8
Employment insurance benefits	903	1,001	10.9	2,891	3,472	20.1
Total	2,953	3,185	7.9	9,095	10,034	10.3
Other levels of government						
Canada Health and Social Transfer	1,442	1,550	7.5	4,325	4,650	7.5
Fiscal transfers	1,057	1,056	-0.1	3,099	3,096	-0.1
Alternative Payments for Standing Programs	-200	-210	5.0	-600	-630	5.0
Total	2,299	2,396	4.2	6,824	7,116	4.3
Direct program spending						
Subsidies and other transfers						
Agriculture	152	7	-95.4	381	64	-83.2
Foreign Affairs	141	88	-37.6	325	213	-34.5
Health	75	82	9.3	273	324	18.7
Human Resources Development	86	95	10.5	239	275	15.1
Indian and Northern Development	255	300	17.6	1,171	1,163	-0.7
Industry and Regional Development	174	148	-14.9	326	317	-2.8
Veterans Affairs	123	137	11.4	366	418	14.2
Other	196	197	0.5	684	520	-24.0
Total	1,202	1,054	-12.3	3,765	3,294	-12.5
Payments to Crown corporations						
Canadian Broadcasting Corporation	80	74	-7.5	320	332	3.8
Canada Mortgage and Housing Corporation	158	159	0.6	474	489	3.2
Other	110	116	5.5	439	476	8.4
Total	348	349	0.3	1,233	1,297	5.2
Operating and capital expenditures						
Defence	1,009	730	-27.7	2,018	2,107	4.4
All other departmental expenditures	1,635	1,855	13.5	4,881	5,751	17.8
Total	2,644	2,585	-2.2	6,899	7,858	13.9
Total direct program spending	4,194	3,988	-4.9	11,897	12,449	4.6
Total program expenditures	9,446	9,569	1.3	27,816	29,599	6.4
Public debt charges	3,111	3,022	-2.9	9,904	8,865	-10.5
Total budgetary expenditures	12,557	12,591	0.3	37,720	38,464	2.0
Memorandum item:						
Total transfers	6,454	6,635	2.8	19,684	20,444	3.9

- Excise taxes and duties increased by $1.0 billion, or 12.2 per cent, primarily reflecting higher GST revenues, customs import duties and the increases in tobacco excise taxes and duties.
- Non-tax revenues were up 4.5 per cent.

Program spending increased by $1.8 billion, or 6.4 per cent, in the April to June 2002 period, compared to the same period last year.

- Transfers to persons were up 10.3 per cent, reflecting both higher elderly and EI benefits.
- Transfers to other levels of government were up 4.3 per cent, attributable to higher cash transfers under the CHST. Entitlements under the fiscal transfer programs were virtually unchanged, primarily reflecting the timing of payments.
- Direct program spending increased by 4.6 per cent. During the first few months of the fiscal year, developments in this component are largely affected by the timing of payments.

Public debt charges declined by $1.0 billion, or 10.5 per cent, reflecting the impact of the lower average effective interest rate on the stock of debt.

Financial requirement of $7.8 billion (excluding foreign exchange transactions) for April to June 2002

The budgetary balance is presented on a modified accrual basis of accounting, recording government liabilities when they are incurred, regardless of when the cash payment is made. In addition, the budgetary balance includes only those activities over which the Government has legislative control.

In contrast, financial requirements/source measures the difference between cash coming in to the Government and cash going out. Financial requirements/source differs from the budgetary balance as the former includes transactions in loans, investments and advances, federal employees' pension accounts, other specified purpose accounts, and changes in other financial assets and liabilities. These activities are included as part of non-budgetary transactions. The conversion from accrual to cash is also reflected in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of $12.6 billion in the first three months of 2002-03, compared to a net requirement of $10.3 billion in the same period in 2001-02.

As a result, with a budgetary surplus of $4.8 billion and a net requirement of $12.6 billion from non-budgetary transactions, there was a financial requirement (excluding foreign exchange transactions) of $7.8 billion in the April to June 2002 period, compared to a financial requirement of $0.8 billion in the same period last year.

Net financial requirement of $9.0 billion for April to June 2002

Foreign exchange transactions represent all transactions in international reserves held in the Exchange Fund Account (EFA). The objectives of the EFA are to provide general foreign currency liquidity for the Government and promote orderly conditions in the foreign exchange market. The EFA contains foreign currency investments, the Government's gold holdings and assets related to Canada's commitment to the International Monetary Fund (IMF). Increases in the level of the reserves through borrowings, contributions to the IMF, and/or selling of Canadian dollars represent a requirement. Conversely, decreases in the level of reserves represent a source of funds. Taking all of these factors into account, there was a net requirement of $1.3 billion in the first three months of 2002-03, compared to a net source of $0.3 billion in the same period in 2001-02.

With a budgetary surplus of $4.8 billion, a net requirement of $12.6 billion from non-budgetary transactions and a net requirement of $1.3 billion from foreign exchange transactions, there was a net financial requirement of $9.0 billion in the April to June 2002 period, compared to a net requirement of $0.5 billion in the same period last year.

Table 4

The budgetary balance and financial requirements/source

	June		April to June	
	2001	2002	2001-02	2002-03
		($ millions)		
Budgetary balance (deficit/surplus)	2,792	4,036	9,554	4,768
Loans, investments and advances				
Crown corporations	52	62	232	77
Other	92	63	33	93
Total	144	125	265	170
Specified purpose accounts				
Canada Pension Plan Account	-670	-116	-443	155
Superannuation accounts	-302	-508	-496	-595
Other	-75	-112	-22	-166
Total	-1,047	-736	-961	-606
Other transactions	-6,984	-7,276	-9,652	-12,123
Total non-budgetary transactions	-7,887	-7,887	-10,348	-12,559
Financial requirements/source (excluding foreign exchange transactions)	-5,095	-3,851	-794	-7,791
Foreign exchange transactions	449	-607	312	-1,255
Net financial balance	-4,646	-4,458	-482	-9,046

Table 5

Net financial balance and net borrowings

	June		April to June	
	2001	2002	2001-02	2002-03
		($ millions)		
Net financial balance	-4,646	-4,458	-482	-9,046
Net increase (+)/decrease (-) in borrowings				
Payable in Canadian dollars				
Marketable bonds	-3,187	-3,897	-2,041	-6,053
Canada Savings Bonds	-86	-161	-166	-312
Treasury bills	-3,600	700	-4,600	8,700
Other	-4	-6	-4	-8
Total	-6,877	-3,364	-6,811	2,327
Payable in foreign currencies				
Marketable bonds	0	0	-1,576	0
Notes and loans	-41		-41	
Canada bills	-1,252	-55	-382	-249
Canada notes	0	0	-173	0
Total	-1,293	-55	-2,172	-249
Net change in borrowings	-8,170	-3,419	-8,983	2,078
Change in cash balance	-12,816	-7,877	-9,465	-6,968

Table 6

Condensed statement of assets and liabilities[1]

	March 31, 2002	June 30, 2002	Change
		($ millions)	
Liabilities			
Accounts payable, accruals and allowances	41,014	29,206	-11,808
Interest-bearing debt			
Pension and other accounts			
Public sector pensions	127,209	126,614	-595
Canada Pension Plan (net of securities)	6,756	6,911	155
Other pension and other accounts	7,454	7,288	-166
Total pension and other accounts	141,419	140,813	-606
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	293,865	287,791	-6,074
Treasury bills	94,200	102,740	8,540
Canada Savings Bonds	23,759	23,654	-105
Other	3,390	3,383	-7
Subtotal	415,214	417,568	2,354
Payable in foreign currencies	27,033	26,782	-251
Total unmatured debt	442,247	444,350	2,103
Total interest-bearing debt	583,666	585,163	1,497
Total liabilities	624,680	614,369	-10,311
Assets			
Cash and accounts receivable	14,796	8,168	-6,628
Foreign exchange accounts	52,119	53,374	1,255
Loans, investments and advances (net of allowances)	16,387	16,217	-170
Total assets	83,302	77,759	-5,543
Accumulated deficit (net public debt)	541,378	536,610	-4,768

[1] Assumes a fiscal balance of $6 billion for 2001-02.

Net borrowings up $2.1 billion for April to June 2002

To finance this net financial requirement, the Government increased its holding of market debt by $2.1 billion to the end of June 2002 and lowered its cash balances by $7.0 billion to $5.0 billion. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis.

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